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ABSTRACT

This paper examines the fiscal implications of legislative proposals stemming from the 1985 repeal of the constitutional tax limit for the Small City School Districts (SCSDs) in New York. The proposals would allow SCSD residents to vote directly on the adoption of their school budget. This paper compares the annual percentage increase of school board-approved SCSD budgets with the increases approved by a demographically similar group of noncity districts required to hold a referendum. Based on the hypothesis that the referendum would act as a constraining device on SCSD annual expenditure increases, 1980 census data were used to examine 10 variables of public school expenditures in 31 SCSDs and 236 noncity districts. Findings indicate that because of the diverse demographic nature of the 31 SCSDs and because a similar group of noncity districts were found, educational policy should not be based on districts' classification of a "city school district." Second, tax limits in the early 1980s had little effect on the size of the annual budget increases, and the 31 SCSDs have not pursued a path of extraordinarily high budget increases since the removal of the tax limit. Third, there is no evidence to conclude that representative budget voting has resulted in systematically higher spending increases being adopted by the 31 smallest SCSDs. (LMI)

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THE FISCAL IMPLICATIONS OF REFERENDUM BUDGET VOTING FOR NEW YORK STATE SMALL CITY SCHOOL DISTRICTS

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THE FISCAL IMPLICATIONS OF REFERENDUM BUDGET VOTING FOR NEW YORK STATE SMALL CITY SCHOOL DISTRICTS

This paper examines the fiscal implications of legislative proposals stemming from the 1985 repeal of the constitutional tax limit for Small City School Districts (SCSDs) in New York State.[1] The proposals would allow SCSD residents a direct vote in the adoption of their school budget. Presently, the 57 SCSDs operate under a representative system in which the school board has the sole authority to adopt a new annual budget. Since 1985, the New York State Legislature has considered several bills that would eliminate differences in budget decision-making between fiscally independent[2] non-city and SCSDs.

An increase in fiscal accountability for SCSDs is considered by some as one argument for extending the budget referendum to SCSDs.[3] Implicit in this argument is the assumption that there would be a difference in annual fiscal outcomes if the SCSDs went from school board representation with no referenda to representation with a referenda, as now practiced in non-city districts.

This argument has been made without the benefit of research on the implications of a change in budget

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decision-making for SCSDs.[4] The assumption of constraint may be unfounded because the referendum / contingency budget process as practiced by non-city school districts in New York State allows voter choice on less than a third (depending on the district) of the budget.[5]

Theoretical work has suggested that a representative system with no referendum may result in higher levels of total spending than if there was a referendum, everything else being equal.[6] Empirical work by Pommerehne[7] and Pommerehne and Schneider[8] provide evidence that the referendum process may result in lower levels of spending than the representative process used in city governments in Switzerland. In New York, Adams[9] found in a different context that at least in nominal terms city school district spending levels were higher than non-city school districts of similar wealth. However, these studies speak to the overall size of budgets, and do not report on the percentage increases in budget size from year to year as a result of representative and referendum processes.

This paper compares the annual percentage increase of school board approved SCSD budgets with the increases

approved by a demographically similar group of non-city districts required to hold a referenda. The primary goal is to provide state policy-makers with additional information for decision-making. A secondary goal is to outline in more explicit detail a description of how the collective decision-making process translates community preferences for education into annual spending plans. It is hoped that this discussion can form the basis for future research projects which apply the social choice literature to educational finance settings.

The following section first describes the non- city and SCSD school budget processes. It then outlines the basis for the hypothesis that the referendum would act as a constraining device on SCSD annual expenditure increases. Next, the research approach will be explained and the analysis of results given. Policy implications and possibilities for future research will be discussed in the last section.

THE NEW YORK STATE SCHOOL BUDGET PROCESS

The school budget process is very similar in non-referenda and referenda districts in New York State, with the referenda being the main difference. However, this

difference is considered to result in different incentives for school participants (e.g., administrators, school board members, and taxpayers). The school staff, school board, and community residents are all important players in the determination of community expenditures for education.

In both referenda and non-referenda school districts, the budget process begins with the development of school staff budget requests in the fall. These requests are assembled and submitted to the school board as the superintendent's budget. The school board and a Citizens Budget Advisory Committee (CBAC) are likely to influence the superintendent's budget before it is formally submitted to the school board.[10] Public input is sought by the school board during the winter and early spring months at school board meetings. The school board adopts a tentative budget in late spring. After this adoption, a public hearing will usually be held in non-city districts, and is required by law in SCSDs. Following the hearing, the school board may revise its budget.

In a SCSD, the school board reviews the revised budget and adopts a final budget before the beginning of

the fiscal year, which starts July 1. In non-city school districts, the school board will present the budget for voter approval in a referendum. If the budget is rejected by a majority of voters, the school board may either present the same or a new proposal to the voters or adopt a contingency budget. State law allows the school board in non-city school districts to levy taxes for mandated educational expenses (as represented in the contingency budget) without voter approval.

THE HYPOTHESIS OF HIGHER EXPENDITURE INCREASES

This paper hypothesizes that differences in the budgeting processes lead to higher annual percentage increases in expenditures in small city as compared to non-city districts, where the city and non-city districts are similar in wealth, population size, and other proxies of community tastes/demand for education. This hypothesis is based in part on the following assumptions: school administrators act as budget maximizers;[11] school board members are driven only by the desire to be re-elected;[12] and the referendum acts as "a constraint on the representatives' behavior".[13]

School administrators are likely to be influenced in the fall budget development process by the level of expenditure increase adopted the previous spring.[14] Information on the economy, enrollments, etc., also will influence the superintendent's proposed budget in both cases. In both cases, the school staff also may be influenced by the school board and CBAC review. Superintendents in SCSDs may have less incentive to seek out other members of the community to determine their preferences for the next year's budget, because there is no referendum.

School board members also will be influenced by the budget adopted the previous spring.[15] In both referendum and non-referendum districts, the school board will be influenced by individuals on the CBAC or residents who attend the budget hearings or special school board meetings. This group of individuals is assumed to represent community members with a high demand for education.[16] Participation in the budget dialogue requires an investment of time to attend the meeting and to become informed on the budget. These individuals, having become knowledgeable about the budget, will be in a position to select information favorable to their case

in budget discussions and thus may be able to persuade the less informed to support their position. Since the private benefits to schooling are more concentrated than the costs, generally only the relatively few individuals with a high anti-tax preference may be likely to expend the energy necessary for participation.

Citizens who participate in the budget development process are likely to represent a small fraction of the total eligible voting population. Non-city school board members, uncertain of whether a majority of voters will vote "yes" in the referendum, should have more of an incentive than SCSD board members to seek out information on voters' preferences, and attempt to influence the voters by providing information on the benefits of the budget proposal.

While typically only 20 percent of the eligible voters will actually vote in a school budget referendum,[17] the voters are likely to represent a wider cross section of preferences than those participating in the early budget development process. Compared to participating in the early budget process, it takes less effort to vote and the voter need not necessarily spend time in becoming fully informed on the

issue. As a group, those voting are assumed to have a lower preference for educational expenditures than citizens participating in budget development, simply because they will likely represent a wider cross section of the community.

School board members in a non-city school district will have an incentive to assure the budget referendum passes, because a budget defeat may hurt their re-election chances by lowering overall community confidence.[18] A budget defeat is essentially interpreted as a vote of no confidence in the school district government;[19] a vote that is likely to be registered again at the next school board election. School board members are likely to be voted off the board "if they are recalcitrant".[20] A school budget defeat might be likely to push some voters over an imaginary threshold where conditions are seen as remarkably different, warranting a reexamination of their votes for particular board members.[21] SCSD school board members' re-election chances are assumed to be less affected by the budget issue, and thus SCSD school board members are likely to have less of an incentive to seek out wide citizen input on preferences. Given that a referendum is

held every year and a portion of the board is likely to be up for re-election in any given year, the referendum is thought to provide an added incentive for non-city, as compared to SCSD school board members, to act in a manner acceptable to the majority of voters.[22]

School board members in referenda districts may also be more inclined than school board members in non-referenda districts to provide stronger oversight of the school bureaucracy.[23] In a city district without strong oversight, the school bureaucrats (i.e., school administrators) have the opportunity to pursue their own budget maximization objective. The bureaucrats have an advantage over the school board members in that they set the initial budget agenda.[24] The school bureaucrats know more than the board members about the actual costs of the education services[25] unless there is strong oversight, because board members "lack independent sources of information".[26] City school board members may have less incentive to request detailed information and explanation on program costs. The need to pass the referendum provides the incentive for non-city school board members to be knowledgeable on school costs and

thus weakens the bureaucrats monopoly position in proposing the initial budget.

The different incentive structures and the role of information in the two environments is hypothesized to result in the adoption of higher annual percentage increases in expenditures in city versus non-city districts. This paper assumes that non-city school board members are more likely than their city counterparts to be informed on school costs, and in a better position to scrutinize the bureaucrats' budget for nonessential expenses. If the hypothesis were correct, the process in non-city school districts would likely begin with a leaner superintendent's budget. School administrators in SCSDs may have more leeway to pursue their own agenda because of the advantage gained by knowing more about educational costs than the school board. SCSD school administrators also will base the budget request on a board-approved budget from the previous year, which was influenced only by a relatively small number of involved citizens.

RESEARCH APPROACH

The research methodology involves using 1980 Census data (1990 data would not be expected to significantly affect the results) to develop a sample of demographically similar districts for which actual expenditure increases are compared between 1980 and 1990. An average expenditure increase for each district is first determined, with an average of the district increases then calculated and compared for each group. The analysis is based on a sample selection using ten variables often cited in the literature as having an impact on public school expenditures. Any differences in expenditure increases between the two demographically similar groups of districts would be assumed attributable to the institution of referenda. Future research would be necessary to delineate any other possible explanations.

THE SCSD STUDY GROUP

As previously mentioned, the SCSD population includes 57 school districts. These districts ranged in population in 1980 from 7,700 to more than 100,000. An initial review of non-city districts within this

population range suggested difficulty in finding an equal number of non-city districts with similar characteristics as the larger SCSDs. The larger small cities appear to differ from similar-sized towns and villages in terms of geography and population characteristics. For example, most of the larger non-city districts such as Levittown, Liverpool, North Syracuse, Greece, Fairport, Vestal, Kenmore, Williamsville, West Seneca, North Colonie, and South Colonie, can be characterized as suburbs. While a few suburbs may contain a similar population mix as the small cities, they are usually not as densely populated and usually contain a smaller poor population, among others things.

The study considers only the 31 SCSDs with total district populations in 1980 of fewer than 25,000. This is an arbitrary cutoff, as the Department of Education's definition of a small-sized city district is a district with a population of fewer than 50,000.[27] The SCSDs studied in this paper then, might be considered the smallest of the small city districts. These SCSDs appear to have a more homogeneous population, similar to the same-sized non-city districts.

THE CHOICE OF TASTE OR PREFERENCE VARIABLES

Bergstrom and Goodman[28] suggest that the variables used in empirical analysis as indications of community tastes or preferences for government spending may be seen as affecting the expenditure decisions of government in at least two ways. Some of the variables appear to describe the characteristics of the jurisdiction, while others describe portions of the population that are likely to have different tastes from the remainder of the population.

Because the analysis seeks only to define a sample of similarly situated non-referenda and referenda districts, and not to determine the relative effect of the demographic variables on expenditure outcomes, it is not necessary to postulate the probable impact of the variables. For the purposes of this study, it is sufficient to note that the variables included for sample selection might be considered as impacting the expenditure decisions of school districts. Table 1 lists the ten variables used in sample selection.

TABLE 1

EXPLANATION OF CENSUS VARIABLES

POP	- Total district population;
MED INC	- Median household income;
PRI ENR	- Students enrolled in private schools as a percentage of total school enrollment;
+65 OLD	- Population over sixty-five years of age;
NFAM HH	- Households defined as non-family;
RENT HU	- Rental housing units as a percentage of total housing units;
Non WHI	- Percent of total population that are classified as from minority backgrounds;
No HS	- Population over 25 not completing High School;
Bel Pov	- Persons with income below the poverty line;
Val HU	- Mean value of homes in the district.

Source: Based on definitions from the United States Bureau of the Census, 1980 Census School District Selected Population and Housing Characteristics (STF 1F) and 1980 Census School District Comprehensive Population and Housing Characteristics (STF 3F), Washington, DC (1984).

A significantly different non-city sample would probably not result from the use of 1990 Census data. Since sample selection is only one part of the analysis, replication of this study using 1990 data should not significantly alter the overall findings.

ANALYSIS OF SCSD AND NON-CITY DISTRICT DATA

The analysis began with an examination of data for the 31 city and 236 non-city districts, as listed in Table 2. As the Small City School District Association

lawyers have argued, SCSDs do tend to be poorer and contain groups that might be likely to be low supporters of public education.[29] As a group, the 31 SCSDs have lower incomes (median of $14,438 versus $19,711) and higher proportions of residents living in poverty (median of 11.9% versus 6.4%) than the original group of 236 non-city districts. In 1980, the SCSDs were made up of populations with greater percentages of Non-Family Households (median of 30.2% versus 20.9%), and persons over 25 without a high school diploma (median of 35.8% versus 27.9%) than similar sized non-city districts. However, while private school enrollments (median of 9% versus 8%) and the percentage of the population over 65 (median 14.3% versus 11.1%) were lower for the original non-city group, the differences were small.

Perhaps the more interesting aspect of the demographic information lies in the ranges of the variables for the 31 SCSDs. For example, both private school enrollment and persons living below poverty have low minimum points (1.5% and 3.1%). In the case of both city and non-city districts, the Non-White population has a 23 and 90 percentage point range.

TABLE 2

SCHOOL DISTRICT DEMOGRAPHICS - 1980 CENSUS DATA

	POP	MED INC ($)	PRI ENR (%)	+65 OLD (%)	NFAM HH (%)	RENT HU (%)	Non WHI (%)	No HS (%)	Bel POV (%)	Val HU* ($)
SCSDs Under 25,000 in Population (N=31)										
MEAN	16528	15338	11.8	14.5	30.0	39.7	4.6	35.6	11.8	30
MED	17136	14438	9.0	14.3	30.2	37.9	2.0	35.8	11.9	26
MIN	7704	12315	1.5	10.1	19.4	18.1	0.2	13.4	3.1	15
MAX	24991	31726	36.7	19.6	42.1	60.8	23.7	48.3	18.8	114
STD	4632	3726	8.4	2.2	4.8	9.3	5.4	7.0	3.6	17
Non-City SDs 7,000-25,000 in Population (N=236)										
MEAN	14003	21118	9.3	11.2	20.8	24.5	4.6	27.2	7.4	43
MED	13046	19711	8.0	11.1	20.9	23.9	1.8	27.9	6.4	36
MIN	7777	11481	0.5	4.6	5.7	5.0	0.2	5.6	1.3	16
MAX	24765	57938	36.2	22.1	37.4	61.1	90.2	61.9	21.8	151
STD	4848	6631	6.8	3.2	6.0	9.3	9.8	9.1	4.2	24

* In Thousands

The data indicate there may be difficulties in making blanket statements about even the smallest of SCSDs. Not all SCSDs can be seen as fitting the same profile. The decision-making hypothesis discussed above may be too broad to take into account the widely varying demographics of SCSDs. However, the range in the variables does facilitate the selection of a somewhat similar group of non-city districts for a broad comparison.

NON-CITY SAMPLE SELECTION

The non-city sample selection outlined in Table 3 began with the 236 districts within the city population range. This group was first limited to 90 non-city districts with variables within the ranges found for each city variable. A smaller group was selected from these 90 districts by setting a cap on median income, and floors on private school enrollment and renters. Six districts were then eliminated from the resulting group

TABLE 3

DEMOGRAPHIC VARIABLES: NON-CITY SAMPLE (N=31) @

	POP	MED INC ($)	PRI ENR (%)	+65 OLD (%)	NFAM HH (%)	RENT HU (%)	Non WHI (%)	No HS (%)	Bel POV (%)	Val HU* ($)
MEAN	13354	16186	10.2	14.1	26.7	31.9	3.6	34.5	9.8	29
MED	11282	16013	9.6	13.9	26.2	30.6	1.6	34.4	9.1	28
MIN	8152	12422	4.7	10.2	19.9	24.1	0.7	20.7	3.6	20
MAX	24276	20727	24.8	19.5	37.4	59.9	18.1	45.3	16.7	56
STD	4550	2364	4.9	2.4	4.0	7.3	4.3	5.1	3.4	77

@ The final group is based on the following criteria:
1 Between Min and Max for each variable (N=90)
2(a) Below $21,000 in Median Household Income and;
(b) Above 3.4% of Private School Enrollment
(c) Above 24% of Housing Units Rented (N=37)
3 Six districts eliminated based on geographic diversity and school districts made up of two distinct communities.

* In Thousands

of 37 districts based on geographic diversity considerations and by eliminating those districts made up of more than one distinct community. The final non-city sample listed in Table 3 is smaller and wealthier, with fewer renters and Non-Family households.

EXPENDITURE ANALYSIS

The high degree of variability in the demographic variables carries over when the expenditure data for the two groups is compared in Table 4. On the whole, it can not be concluded that there was a systematic difference in annual percentage increases in school expenditures between SCSDs (using a representative budget voting institution) and demographically similar non-city districts (using a budget referendum) in the 1980s. There does not appear to be a consistent pattern of increasing expenditure increases in the non-referendum districts, as the hypothesis suggested.

As depicted in Table 4, only in the year 1988-89 does the T test indicate a statistically significant difference in the means. The differences in the average increases for the two groups, 9.1 and 8.5 percent, are not considered statistically significant. There is a

high probability that the differences in the means were caused by chance, rather than attributable to the hypothesized differences in voting institutions.

TABLE 4

ANNUAL CHANGES IN APPROVED OPERATING EXPENDITURES
SCSDs VERSUS NON-CITY SDs, YEAR ENDING 1980-1990

	81	82	83	84	85	86	87	88	89	90	AVG
Average Annual Percentage Increases											
SC	8.4	10.6	8.5	7.1	6.8	9.2	9.8	11.2	9.5	9.7	9.1
NC	8.5	8.9	7.4	6.0	7.5	8.9	9.5	7.3	13.5*	7.7	8.5
Standard Deviations											
SC	9.7	3.6	6.5	5.4	5.6	6.6	5.9	8.6	4.1	5.5	1.5
NC	4.2	4.5	4.2	4.5	5.0	5.3	8.9	7.6	8.0	4.0	1.6

* Difference significant at $p<.05$; two tailed T test

SUMMARY OF FINDINGS

In summary, at least three important results can be attributed to the analysis. First, the diverse demographic nature of the 31 SCSDs under study, and the fact that a similar group of non-city districts could be found, suggest that educational policy should not be based on districts' classification as a "city school district."

Second, when compared to the increases in similarly situated non-city districts, there is little evidence to suggest that the tax limits in effect in the early 1980s had any effect on the size of annual budget increases; conversely it is clear that as a group these 31 SCSDs have not pursued a path of extra-ordinarily high annual budget increases since removal of the tax limit.

Third, there does not appear to be sufficient evidence to conclude that the institution of representative budget voting has resulted in systematically higher spending increases being adopted by the 31 smallest SCSDs.

The contingency budget process used by referendum districts in New York State might be considered as mitigating the hypothesized effects of the referendum. The contingency budget process, which allows voter control over less than a third of the total budget, results in only marginal differences between the referendum and representative budget processes in New York State independent school districts.

POLICY IMPLICATIONS AND FUTURE RESEARCH

School budget referenda require residents to invest time in deciding whether and how to vote. A referendum also would require SCSD officials to invest additional money and energy in informing voters on the details of the proposal and in informing themselves as to the preferences of those likely to vote. Given these costs, a change from representation with no referenda to representation with referenda might not be advisable since both processes appear to result in similar expenditure outcomes. Additional time and money would have been spent with no differences in budget outcomes for these 31 SCSDs.

This paper has not considered the argument that there are other benefits (e.g., psychological, educational) found in the process of conducting a referenda. It has also not considered historical or legal arguments that might be considered important by state policy-makers (nor has it considered the possibility of contingency budget reform). However, the evidence presented here calls into question the validity of assuming that a referenda would impose greater constraint on SCSD annual budgetary increases. Future

research using regression methodology may be able to provide the analysis with additional insights. In the above methodology, the size of spending levels is not taken into account. However, spending levels are not considered important in terms of the legislative proposals calling for a change in current budgetary practice. Research has shown that the increase in budget expenditures is more important to school participants than the level of spending.[30]

Perhaps the most insightful approach would be to turn to a qualitative analysis of individual district budget decision making. Further research might examine the differences between the budget decision making environments of referendum and non-referendum New York State school districts. A qualitative analysis might offer additional information on why the hypothesis of different fiscal outcomes between referendum and representative school budget voting mechanisms, could not be substantiated.

1. SCSDs are city school districts with populations less than 125,000. For background on small city tax limits see John R. Curley, "The New York Stat Experience With School District Tax Limits." Journal of Education Finance, 11 (Winter, 1986): 347-354.

2. Both Non-City and SCSDs are have their own independent taxing authority, in New York State the five largest city districts receive appropriations from city governments and are considered fiscally dependent districts.

3. See New York State Senate Research Service, "School Budget Controversies - Small City Vote and Contingency Budget Reform." Issues and Focus (Report No. 88-173, May, 1988), Albany.

4. Bruce M. Venter, Distribution of Special Aid to Small City School Districts in New York State, 1983-1984, (Doctoral dissertation, State University of New York at Albany, 1986).

5. Non-City school boards are authorized to raise taxes for mandated expenses when voters reject the budget proposal. See New York State Legislative Commission on Expenditure Review, School District Budget Voting and Contingency Budgeting, (Program Audit No. 9.1.78, December, 1978), Albany.

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16. Anthony Downs, op. cit.

17. New York State Legislative Commission on Expenditure Review, op. cit.

18. Joseph P. Camerino, The Relationship Among Selected Indicators and Fiscal Characteristics of School Districts and Their Communities With Tax Rates and School Budget Defeat (Doctoral dissertation, State University of New York at Albany, 1988).

19. New York State Legislative Commission on Expenditure Review, op. cit.

20. Scott L. Feld, and Joel I. Grossman, op. cit., p. 374.

21. Anthony Downs, op. cit.

22. Werner W. Pommerehne, and Friedrich Schneider, op. cit.

23. Thomas Romer, and Howard Rosenthal, "Median Voters or Budget Maximizers: Evidence From School Expenditure Referenda," Economic Inquiry, 20 (October, 1982): 556-578.

24. Thomas Romer and Howard Rosenthal, "Bureaucrats Versus Voters: On the Political Economy of Resource Allocation By Direct Democracy," The Quarterly Journal of Economics, (November, 1979): 563-587.

25. Jeffrey S. Banks, "Monopoly Agenda Control and Asymmetric Information," Quarterly Journal of Economics, (May, 1990): 445-464.

26. Institute for Educational Leadership, National Association of School Boards (Washington, DC, 1986), p. 42.

27. New York State Department of Education, Report to the Governor and the Legislature on the Educational Status of the State's Schools for 1989-90 (Chapter 655 Report), Albany (1990).

28. Theodore C. Bergstrom and Robert P. Goodman, "Private Demands for Public Goods," American Economic Review, 63:3 (1973): 280-296.

29. O'Connell and Aronowitz, Attorneys At Law, Representing the Small City School District Association, Small City School Districts: Their Special Needs and Characteristics, Attachment, "What Makes Small City Schools Different?," Albany (1986).

30. Joseph P. Camerino, op. cit.